

Message Text

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TO USMISSION GENEVA IMMEDIATE

C O N F I D E N T I A L STATE 034715

FOR CHIEF TEXTILE NEGOTIATOR, MBSMITH AND CITA CHAIRMAN

E.O. 11652: GDS

TAGS:ETRD, GATT

SUBJECT: MFA RENEWAL.

DRAFT TEXT OF PROPOSED REQUEST FOR REPRESENTATIONS TO
EUROPEAN ECONOMIC COMMUNITY ON MFA RENEWAL FOLLOWS:

SUMMARY: SINCE 1974, DEVELOPED AND DEVELOPING COUNTRIES
HAVE LARGELY AVOIDED POLITICAL SPILLOVER FROM THE
SENSITIVE TEXTILE TRADE ISSUE BECAUSE OF THE EXISTENCE
OF AN INTERNATIONALLY AGREED UPON SET OF RULES FOR
DEALING WITH TEXTILE TRADE PROBLEMS (THE GATT ARRANGEMENT
REGARDING INTERNATIONAL TRADE IN TEXTILES OR MFA). THE
FUTURE OF THIS IMPORTANT AGREEMENT, HOWEVER, MAY BE
JEOPARDIZED BY THE EFFORTS OF MAJOR TEXTILE IMPORTING
COUNTRIES TO TIP THE CURRENT BALANCED AGREEMENT TOWARD
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A MORE RESTRICTIVE OVERALL FRAMEWORK FOR INTERNATIONAL
TEXTILE TRADE. WE BELIEVE THAT APPROPRIATE LEVEL
POLITICAL OFFICIALS SHOULD BE MADE AWARE OF POTENTIAL
DANGER TO NORTH - SOUTH DIALOGUE IF DEVELOPED AND
DEVELOPING COUNTRIES ENTER INTO A MAJOR DEBATE ON TEXTILE
TRADE POLICY. END SUMMARY.

1. IN DECEMBER, 1976, THE MEMBERS OF THE GATT TEXTILES
COMMITTEE MET IN GENEVA TO CONSIDER WHETHER THE MFA
SHOULD BE EXTENDED, MODIFIED, OR DISCONTINUED PAST ITS

DECEMBER, 1977 EXPIRATION DATE. DURING THE LAST HALF OF 1976, THE US HAD URGED BOTH IMPORTING AND EXPORTING COUNTRIES TO AGREE TO PROMPT RENEWAL OF THE ARRANGEMENT WITHOUT SUBSTANTIVE CHANGE. US POSITION WAS BASED ON OUR BELIEF THAT SIMPLE RENEWAL WAS THE ONLY FEASIBLE WAY TO AVOID THE UNDESIRABLE ECONOMIC EFFECTS OF INSTABILITY IN TEXTILE TRADE AND THE POLITICAL CONSEQUENCES OF A DEVELOPED - DEVELOPING COUNTRY CONFRONTATION ON THIS SENSITIVE ISSUE. AT DECEMBER TC MEETING, THE UNITED STATES AND ALL LDC EXPORTING COUNTRIES EXPRESSED WILLINGNESS TO SEE THE MFA RENEWED IN ITS PRESENT FORM. HOWEVER, THE EC, INITIALLY IN ISOLATION, AND LATER WITH THE SUPPORT OF CANADA AND AUSTRIA, ASKED FOR FURTHER CONSIDERATION OF CERTAIN FEATURES OF THE MFA WHICH THESE IMPORTING COUNTRIES BELIEVED RENDER IT INADEQUATE TO MEET THEIR NEEDS FOR PROTECTION FROM THE IMPACT OF TEXTILE IMPORTS.

2. GATT DIRECTOR LONG AGREED TO CONVENE THE TC AGAIN ABOUT THE END OF FEBRUARY TO FURTHER CONSIDER THE IMPORTING COUNTRIES' CONCERNS. MAJOR IMPORTING AND EXPORTING COUNTRIES MET INFORMALLY ON JANUARY 18 TO DETERMINE IF THERE COULD BE A CONSENSUS FOR RENEWAL AT THE FEBRUARY MEETING. AT THAT MEETING, THE EC AND CANADA, THE KEY IMPORTING COUNTRIES, STATED THAT THEIR SITUATION HAD NOT MATERIALLY CHANGED SINCE NOVEMBER. IN
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SUBSEQUENT BILATERAL CONTACTS, THESE COUNTRIES HAVE INFORMED THE US THAT THEY DO NOT BELIEVE THEY CAN ACCEDE TO MFA RENEWAL WITHOUT SOME CHANGE OR INTERPRETATION TO MEET THEIR EXPRESSED CONCERNS. THE EC COMMISSION HAS INDICATED THAT THE COMMUNITY MAY NOT HAVE A FINAL POSITION ON RENEWAL BEFORE THE MARCH 8 COUNCIL OF MINISTERS MEETING.

3. THE US IS SERIOUSLY CONCERNED THAT AN EXTENDED DELAY IN RESOLVING THE FUTURE OF THE MFA WILL RESULT IN THE INSERTION OF TEXTILE TRADE POLICY AS A CENTRAL ISSUE IN THE ALREADY COMPLEX AND DIFFICULT NORTH - SOUTH DIALOGUE. IN ADDITION TO ITS POLITICAL EFFECT, SUCH DELAY COULD HAVE SERIOUS ECONOMIC CONSEQUENCES FOR BOTH

DEVELOPED AND DEVELOPING COUNTRIES BY CREATING AN ATMOSPHERE OF INSTABILITY IN ONE OF THEIR LARGEST INDUSTRIES.

4. THE US IS WELL AWARE OF THE ECONOMIC AND POLITICAL PROBLEMS EXPERIENCED BY MANY IMPORTING AND EXPORTING COUNTRIES WHICH HAVE LED TO THE CURRENT PRESSURE FOR CHANGE IN THE MFA. THE ARRANGEMENT WAS NEGOTIATED IN 1973 AS A DELICATELY BALANCED COMPROMISE BETWEEN THE

OBJECTIVES OF IMPORTING AND EXPORTING COUNTRIES. MEMBER COUNTRIES DID NOT EXPECT THAT IT WOULD IMMEDIATELY BE TESTED BY THE WORST WORLD-WIDE RECESSION SINCE THE 1930'S, AN ECONOMIC SLOW-DOWN WHICH HIT ESPECIALLY HARD AT THE TEXTILE INDUSTRY. IN THE WAKE OF THIS RECESSION, THE US GOVERNMENT HAS NOT BEEN SPARED TEXTILE INDUSTRY PRESSURE TO SEEK A MORE RESTRICTIVE MFA.

5. IN THE FACE OF THESE FACTS, HOWEVER, WE CONTINUE TO BELIEVE THAT RENEWAL WITHOUT SUBSTANTIVE CHANGE, AS SOON AS POSSIBLE, REMAINS THE BEST COURSE TO FURTHER THE INTERESTS OF BOTH IMPORTING AND EXPORTING COUNTRIES.
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IN ADDITION TO OUR CONCERN ABOUT THE EFFECT OF DELAY ON THE PROGRESS OF THE NORTH - SOUTH DIALOGUE, OUR POSITION IS BASED ON THE FOLLOWING CONSIDERATIONS:

A. DELAY CAN ONLY SERVE TO WIDEN THE GAP BETWEEN IMPORTING AND EXPORTING COUNTRIES. STRONG PROTECTIONIST PRESSURES IN THE COMMUNITY AND OTHER INDUSTRIALIZED COUNTRIES INEVITABLY FEED ON AND REINFORCE EACH OTHER. CANADA'S RECENT ACTIONS UNDER ARTICLE XIX OF THE GATT, THE MOST SWEEPING SET OF RESTRICTIONS IMPOSED BY ANY IMPORTING COUNTRY IN THE PAST 20 YEARS, HAS FURTHER INCREASED THESE PRESSURES. ON THE OTHER SIDE, EXPORTING COUNTRIES HAVE REFRAINED FROM PRESSING THEIR DESIRES FOR A MORE LIBERAL MFA IN THE HOPE THAT THE BENEFITS OF STABILITY FROM QUICK RENEWAL WOULD OUT-WEIGH THOSE FROM ANY LIBERALIZATION THEY MIGHT WREST FROM THE IMPORTING COUNTRIES. IF THE HOPE FOR EARLY RENEWAL FADES, THERE IS LITTLE PROSPECT THAT EXPORTING COUNTRY DEMANDS WILL BE HELD IN CHECK.

B. DEVELOPING COUNTRIES HAVE A CRITICAL ECONOMIC INTEREST IN AVOIDING MORE RESTRICTIONS ON TEXTILE TRADE. IN UNCTAD, CIEC AND GROUP OF 77 MEETINGS, DEVELOPING COUNTRIES HAVE REPEATEDLY OPPOSED EXPORT RESTRAINTS ON THEIR MANUFACTURED GOODS, AND HAVE CALLED FOR THE TERMINATION OF THE MFA AS SOON AS POSSIBLE. GIVEN THEIR PRESSING NEED FOR FOREIGN EXCHANGE TO MEET THE INCREASING COSTS OF RAW MATERIAL AND MANUFACTURED IMPORTS, CONTINUED GROWTH IN THEIR EXPORTS OF LABOR-INTENSIVE MANUFACTURES IS VITAL TO THEIR ECONOMIC SURVIVAL.

C. THERE HAS BEEN INADEQUATE RECOGNITION AND EXPLORATION OF THE FLEXIBILITY OF THE MFA. THE FRAMEWORK OF THE MFA WAS NEVER INTENDED TO ANTICIPATE THE DETAILS OF EVERY TEXTILE TRADE PROBLEM. IT, NEVERTHELESS, PROVIDES ADEQUATE OPPORTUNITIES FOR TEXTILE IMPORTING
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COUNTRIES TO PROTECT THEIR INTERESTS. EACH OF THE NEEDS EXPRESSED BY THE EEC AND OTHER IMPORTERS - LOWER GROWTH RATES FOR IMPORT - IMPACTED CATEGORIES, THE PREVENTION OF "STALLING" BY EXPORTERS DURING NEGOTIATIONS, LIMITATIONS ON THE IMPACT OF THE LARGEST TEXTILE EXPORTING COUNTRIES -- CAN BE HANDLED UNDER THE CURRENT TERMS OF THE MFA. MANY IMPORTING COUNTRIES, INCLUDING THE EC, HAVE ALREADY SUCCEEDED IN NEGOTIATING LOWER-THAN-AVERAGE GROWTH RATES ON SENSITIVE CATEGORIES WITH SEVERAL OF THE MAJOR EXPORTERS. THE MFA FRAMEWORK OFFERS AMPLE ROOM FOR FUTURE ADAPTATION TO MEET PARTICULAR TEXTILE TRADE PROBLEMS WHILE STILL MAINTAINING AN OVERALL CLIMATE FAVORABLE TO THE EXPANSION OF WORLD TEXTILE TRADE.

6. ABOVE DISCUSSION IS NOT MEANT TO IMPLY THAT THE US IS UNAWARE OF THE SERIOUS PROBLEMS FACED BY THE EC IN FORMULATION OF ITS POLICY ON MFA RENEWAL. OUR DIALOGUE WITH THE COMMISSION STAFF OVER THE PAST YEAR HAS CLEARLY ILLUMINATED THESE PROBLEMS. INDEED, WE FEEL THE COMMUNITY'S DIFFICULTIES COULD EVENTUALLY BRING ON THE DEMISE OF THE MFA UNLESS POLITICAL AND ECONOMIC POLICY MAKERS AT THE HIGHEST LEVELS IN BOTH THE COMMISSION AND THE MEMBER STATES FOCUS CLEARLY ON THE BROAD CONCERNS WHICH UNDERLIE THE RENEWAL ISSUE.

7. ACCORDINGLY, USEC IS REQUESTED TO MEET WITH COMMISSIONER HABERKAMP TO PRESENT USG VIEWS AS OUTLINED

ABOVE ON FUTURE OF MFA. MISSION SHOULD STRESS THAT US APPRECIATES PRESSURES WHICH HAVE IMPELLED COMMISSION TO SEEK CHANGES IN THE MFA, AND SUPPORTED FURTHER CONSIDERATION OF EC PROBLEMS IN THE TEXTILE COMMITTEE. YOU SHOULD NOTE, HOWEVER, THAT IT IS OUR FIRM BELIEF THAT IN SEEKING AMENDMENTS OR WRITTEN INTERPRETATIONS AS THE MEANS OF RESOLVING INTERNAL CONFLICTS ON THE CONFIDENTIAL

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RENEWAL ISSUE THE COMMUNITY RUNS A RISK OF PROVOKING A FULL-BLOWN CONFRONTATION BETWEEN DEVELOPED AND DEVELOPING COUNTRIES OVER INTERNATIONAL TEXTILE TRADE POLICY.

8. FOLLOWING CONFIRMATION OF USEC REPRESENTATIONS, EMBASSIES IN MEMBER STATES ARE REQUESTED TO REPORT US VIEWS AND REPRESENTATIONS TO POLICY LEVELS IN MINISTRIES OF FOREIGN AFFAIRS, AND, IF APPROPRIATE, IN MINISTRIES OF TRADE. FOR PARIS: DESPITE REPORTED INSISTENCE OF FRENCH ON AMENDMENTS TO MFA, EMBASSY PARIS SHOULD STRESS TO FRENCH FOREIGN MINISTRY OFFICIALS IMPORTANCE OF FRENCH FLEXIBILITY ON RENEWAL ISSUE. FOR

BONN: PLEASE CONVEY TO FRG OUR APPRECIATION FOR THEIR
ROLE IN COMMUNITY DIALOGUE, BUT EMPHASIZE CONTINUING
U.S. BELIEF THAT CHANGES IN THE MFA ARE NEITHER
NECESSARY TO PROTECTION OF IMPORTING COUNTRY INTERESTS
NOR NEGOTIABLE.

TEXT BEING SENT WITHOUT REVISION TO REFLECT YOUR MOST
RECENT COMMENTS IN ORDER TO ASSURE THAT IT REACHES
YOU PRIOR TO YOUR DEPARTURE FROM GENEVA. TEXT

HAS NOT BEEN FULLY CLEARED IN STATE OR WITH OTHER
CITA AGENCIES. APPRECIATE YOUR EARLY CLEARANCE AND
COMMENTS.
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<< END OF DOCUMENT >>

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